



California Public Utilities Commission

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News Release

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PUC STAFF PAPER ENCOURAGES CREATION OF CAPACITY MARKET FOR CALIFORNIA

SAN FRANCISCO, August 25, 2005 - The California Public Utilities Commission (PUC) today took the first step in evaluating whether a capacity market will increase electricity reliability in the state with the release of a staff White Paper that analyzes and encourages the adoption of such a market.

A capacity market, as described in the staff White Paper, would complement the existing energy-only market by allowing utilities and generators to come together in a market designed to price and allocate capacity, in combination with the energy-only market. The hope is that such a market would more strongly encourage suppliers to build more electric capacity in California by offering them stable revenue streams on which they could finance electricity generation investments.

The PUC requires that utilities purchase the bulk of the State's electricity needs ahead of time, with an added 15-17 percent planning reserve margin by June 1, 2006 – a process known as Resource Adequacy. The White Paper determines that adopting an organized spot capacity market in California could complement the Resource Adequacy requirements and provide benefits to the state, including more effectively driving new investment, controlling market power, reducing risk premiums, and enabling the utilities to more efficiently comply with their Resource Adequacy obligations.

"I called for an evaluation of capacity markets in a ruling I made in February and I look forward to taking the next step in our evaluation," said PUC President Michael R. Peevey.

"Determining whether and how a capacity market will improve the reliability of electricity for California is just one of the many steps the PUC has taken, and will continue to take, to ensure that the lights stay on in the state."

The Commission welcomes comments on the White Paper, due September 23, 2005, and reply comments due by October 10, 2005. Upon review of comments, Commission staff will make a recommendation on an appropriate process for moving forward with the investigation of capacity markets.

The White Paper is on the Commission's website at
<http://www.cpuc.ca.gov/static/industry/electric/elecutilityresourceplanning.htm>.

For more information on the PUC, please visit www.cpuc.ca.gov.

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